

SUMMARY ANALYSIS OF AMENDED BILL

Author: Nakanishi Analyst: Gail Hall Bill Number: AB 2616
Related Bills: See Prior Analysis Telephone: 845-6111 Amended Date: May 9, 2006
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Qualified Vehicle Transaction Deduction

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 24, 2006.
- ☐ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☐ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- ☐ FURTHER AMENDMENTS NECESSARY.
- ☐ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 24, 2006, STILL APPLIES.
- ☐ OTHER – See comments below.

SUMMARY

This bill would provide to personal income taxpayers a \$3,000 deduction for purchasing or leasing a hybrid vehicle.

SUMMARY OF AMENDMENTS

The May 9, 2006, amendments resolved the implementation consideration relating to referencing sections of the Internal Revenue Code and the tax policy concern relating to multiple tax benefits that were discussed in the analysis of the bill as introduced February 24, 2006. Except for the discussion in this analysis, the remainder of the department's analysis of the bill as introduced on February 24, 2006, still applies.

The implementation consideration, tax policy concerns, and economic impact as discussed in the department's analysis of the bill as introduced on February 24, 2006, are included in this analysis for convenience.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

5/12/06

POSITION

Pending.

IMPLEMENTATION CONSIDERATIONS

The deduction is available for taxable years beginning on or after January 1, 2006, and before January 1, 2010, unless 100,000 qualified vehicles have been sold and registered in the state before then. In that case, the deduction would not be available for any taxable year beginning after January 1 of the calendar year immediately after the year in which 100,000 qualified vehicles have been sold and registered in the state. The department would need to be notified of the specific date the 100,000 qualified vehicles cutoff has been reached to properly administer the deduction. In addition, a taxpayer would need notification if the new hybrid vehicle qualifies for the deduction.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this proposal would result in the following revenue losses.

Estimated Revenue Impact of AB 2616 Effective for Tax Years BOA 1/1/2006 Assumed Enactment Date After 6/30/06		
(in Millions)		
2006/07	2007/08	2008/09
-\$15	-\$20	No impact

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact of AB 2616 depends on the number of hybrid vehicles, 2006 models and newer, sold and registered in California. This deduction would sunset on January 1 of the year after the year in which at least 100,000 hybrid vehicles are purchased and registered in California.

California represents 25% of the U.S. hybrid car market. Based on market trend projections and the number of hybrid cars currently registered in California, it is estimated that qualified hybrid purchases would total 64,000 for calendar year 2006, 90,000 vehicles for calendar 2007, and 125,000 for 2008.

For calendar year 2006, total tax deductions would equal \$192 million (64,000 vehicles x \$3,000). Assuming an average marginal tax rate of 7.0 percent, the revenue loss for fiscal year 2006/2007 is estimated to be approximately \$13 million (\$192 million x 7.0%). The revenue loss of \$13 million is increased by \$2 million to account for a small portion of taxpayers that would alter their withholding during the first half of the 2007 calendar year resulting in a total estimate revenue loss of \$15 million for fiscal year 2006/2007.

It is anticipated that the threshold of 100,000 vehicles will be reached during the 2007 calendar year, and some taxpayers planning to purchase a hybrid in 2008 would make their purchase in 2007 to take advantage of the tax benefit. Therefore, 15 percent of projected 2008 hybrid purchases would shift by one year and bring total qualified purchases made during 2007 to approximately 108,000 vehicles [90,000 + (15% x 125,000)]. For fiscal year 2007/2008 deductions would total approximately \$325 million (108,000 x \$3,000), and the revenue loss would be approximately \$20 million (\$325 mil x 7.0% less \$2 million applied to fiscal year 2006/2007).

It is estimated there would be no impact to revenue for fiscal year 2008/2009 because the threshold of vehicles would reach 100,000 in 2007, resulting in the sunset of the hybrid car deduction for taxable years beginning on or after January 1, 2008.

POLICY CONCERNS

1. This bill would establish a deduction for which federal law has no counterpart, thus increasing nonconformity and increasing the complexity of California tax return preparation.
2. A hybrid vehicle may qualify for the federal tax credit, but not qualify for the state's \$3,000 qualified vehicle deduction. This is because state and federal law have differing rules when sales of hybrid cars reach a certain amount. This may cause confusion for taxpayers.

LEGISLATIVE STAFF CONTACT

Gail Hall
Franchise Tax Board
(916) 845-6111
gail.hall@ftb.ca.gov

Brian Putler
Franchise Tax Board
(916) 845-6333
brian.putler@ftb.ca.gov